

TRENDS

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State Health Plan Per Capita Growth in '01

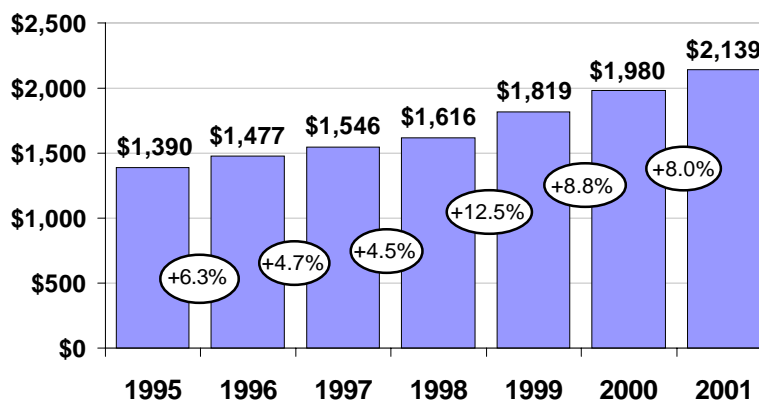
Note: For the purposes of this article, claims payment data utilized is based on claims "paid" in 2001 instead of claims "incurred".

A useful way of examining the impact of health care costs on health plans is to identify the average plan payment per insured, or per capita payment. As a whole, such analysis has shown the dramatic increases facing health plans across the nation. The State Health Plan (SHP) has also seen substantial growth in per capita payment, growing 8.0 percent to \$2,139 in 2001.

Since the per capita payment is derived from claims payments and insured lives, shifts in either of these components has a direct impact. In 2001, SHP claims payments totaled \$790.5 million, an increase of 11.2 percent. This double-digit growth was seen in spite of several cost savings changes to the plan and the slowing of insured lives growth. The average number of insured lives in 2001 grew 2.9 percent to 369,655, pointing to increased utilization, inflationary forces, and new technology as leading contributors to cost growth.

See Per Capita on Page 2

State Health Plan Annual Payment per Insured Person: 1995 - 2000



Note: Data based on claims "paid" during each year.

Per Capita

Continued from Page 1

The 8.0 percent growth observed in 2001 is consistent with the average growth trend of 8.6 annually from 1998 through 2000. The average annual growth rate in insured lives from 1998 through 2000 was 5.0 percent.

Subscribers

Subscriber payments accounted for 67.3 percent of SHP payments in 2001 with \$532.1 million. The 2001 per capita payment of \$2,561 for subscribers was a 6.8 percent increase from 2000. An average 207,802 subscribers were covered by the SHP in 2001, up 3.1 percent from 2000.

Dependent Spouses

The dependent spouses of subscribers had the highest per capita payment in 2001 at \$3,074, up 12.0 percent from 2000. Their plan payments totaled \$174.2 million, an increase of 16.4 percent. Dependent spouse enrollment grew 3.9 percent to 56,669 in 2001. Spouses have tradi-

tionally had a higher per capita payment than subscribers while only composing 15.3 percent of insured lives in 2001.

Dependent Children

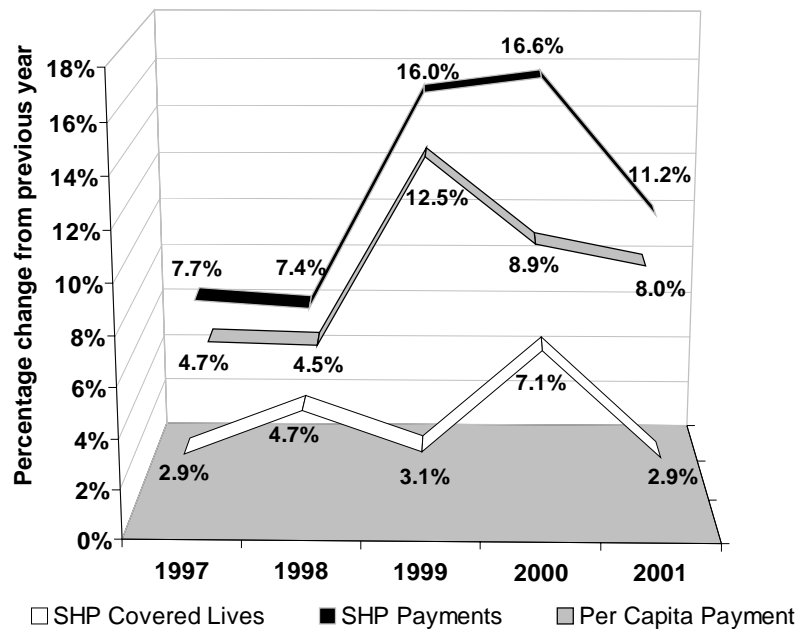
Dependent children had the lowest per capita payment at \$801 in 2001, a 5.2 percent increase from 2000. In terms of enrollment, the average number of dependent children rose only 1.9 percent to 105,185 in 2001. The SHP paid \$84.2 million for dependent children in 2001, up 7.3 percent from 2000.

The average annual growth in dependent children plan payments from 1998 through 2000 was 9.1 percent, compared with the average enrollment growth of 4.2 percent during the same time span.

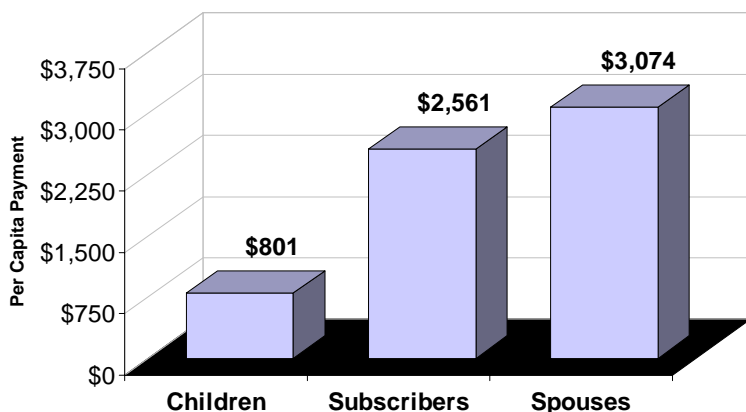
Conclusion

Health care cost growth continues, forcing plans and insureds to stretch scarce health care dollars over an increasing number of demands. Premium growth and plan changes are the result of the observed trend.

SHP Per Capita Payments, Plan Payment, and Covered Lives Growth Trends



2001 SHP Per Capita Payment by Enrollment Type



State Health Plan Payments Grow

While State Health Plan (SHP) payments grew 11.2 percent in 2001 to \$790.5 million, the growth varied by category. In this article, SHP payments were categorized for discussion. Please keep in mind that claims data was analyzed based on a "paid" basis instead of "incurred".

Hospital Payments

State Health Plan (SHP) payments for hospital charges composed the largest share, 43.4 percent, of 2001 SHP payments. Hospital payments totaled \$343.0 million, an 8.8 percent increase from 2000. These payments are divided into inpatient and outpatient payments.

Inpatient Hospital

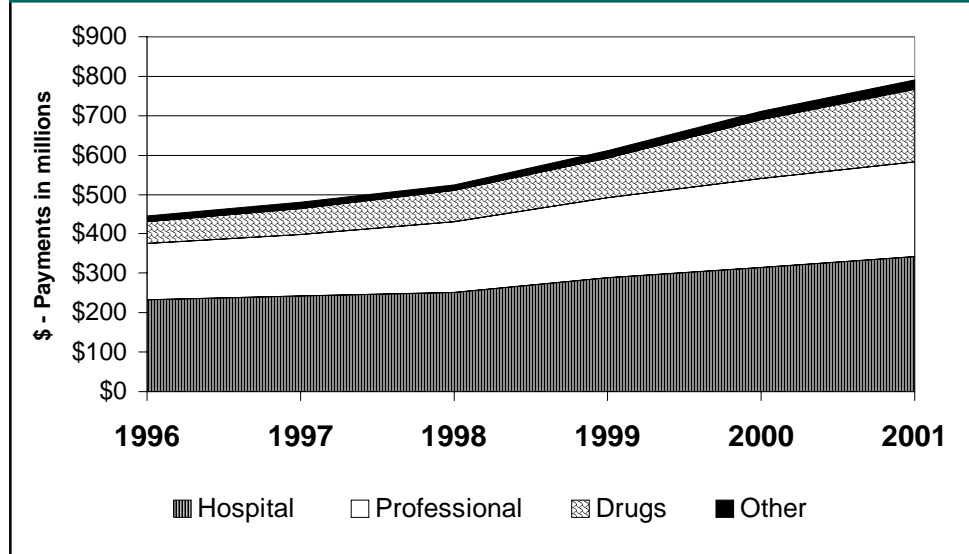
Inpatient hospital payments made up the largest portion of hospital payments at \$193.2 million, a significant 12.9 percent rise from 2000. In comparison, inpatient hospital payment growth averaged 2.5 percent annually from 1996 through 2000. Further analysis of the growth indicated that 81.9 percent of the dollar growth in inpatient hospital payments was due to an \$18.0 million increase in surgery payments in 2001.

The number of inpatient hospital

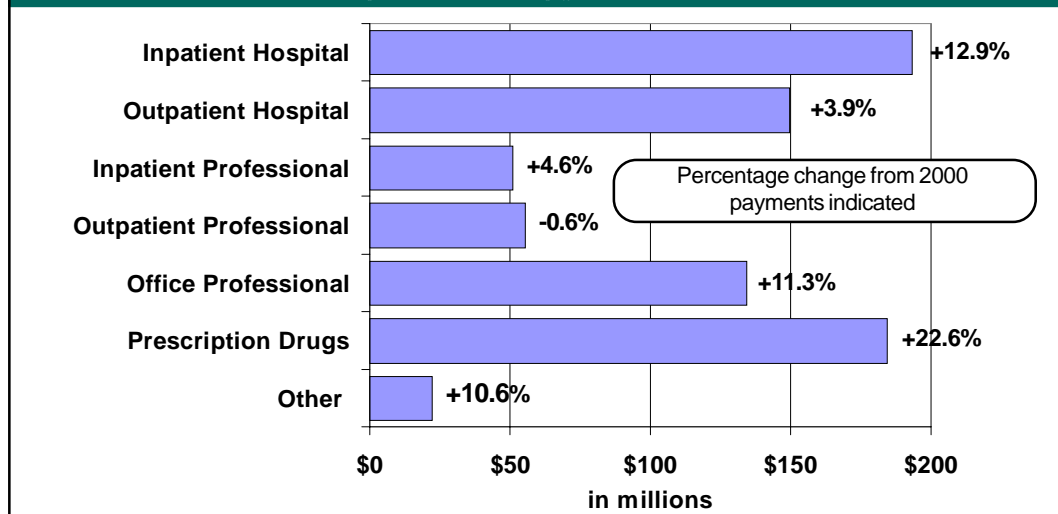
admissions, excluding routine newborn claims data, rose 4.7 percent to 36,362 in 2001. These admissions had an average length of stay of 5 days. Inpatient hospital surgery admissions composed 61.5 percent of the increase in admissions in 2001, rising 5.7 percent to 18,607 in 2001. The largest admissions growth rate in

See Payments on Page 4

State Health Plan Claims Payments
by Service Category: 1996 - 2001



2001 SHP Claims Payment Growth
by Service Type, Location



Payments

Continued from Page 3

2001 was observed for sick newborns, whose inpatient hospital admissions rose 23.6 percent.

Outpatient Hospital

Outpatient hospital payments totaled \$149.8 million in 2001, an increase of 3.9 percent from 2000. The growth rate slowed significantly from the 20.2 percent growth observed between 1999 and 2000 for these payments. Outpatient payments composed 43.7 percent of hospital payments in 2001. Historically, outpatient hospital payment growth averaged 11.8 percent annually from 1996 to 2000.

Professional Payments

Professional payments made up 30.5 percent of total SHP payments with \$240.8 million. Professional payments grew 6.9 percent in 2001. These payments are divided by professional office, inpatient, and outpatient payments.

Professional Office

Professional office payments were the leading component of professional payments, accounting for 55.8 percent of professional payments with \$134.5 million. Payments for this category were up 11.3 percent from 2000. From 1996 to 2000, professional office payments have grown on average 13.7 percent annually.

Professional Outpatient Payments

Professional outpatient payments totaled \$55.5 million in 2001, 23.1 percent of professional payments. Outpatient payments remained relatively unchanged from \$55.9 million in 2000. Since 1999, professional outpatient payment growth has slowed. Payments for the category grew on average 10.1 percent annually from 1996 to 2000.

Professional Inpatient Payments

Inpatient professional payments grew 4.6 percent to \$50.8 million in 2001, composing 21.1 percent of professional payments. As professional inpatient payments rose, the number of professional inpatient cases also grew 6.5 percent. The annual growth trend for professional inpatient payments from 1996 through 2000 was 4.7 percent.

Prescription Drug Payments

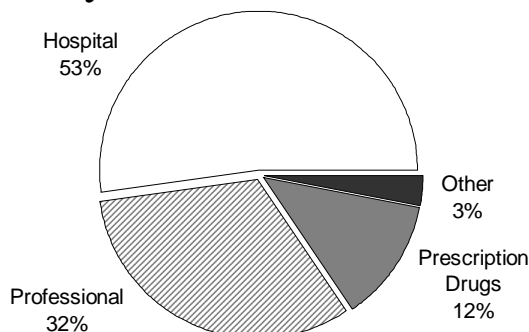
The most alarming growth trend in plan payments is that of prescription drugs. While most are aware of cost growth in prescription drugs, the impact cannot be understated.

In 1995, prescription drug payments composed 11.6 percent of plan payments with \$49.9 million. Less than ten years later, in 2001, they composed 23.3 percent of plan payments with \$184.4 million.

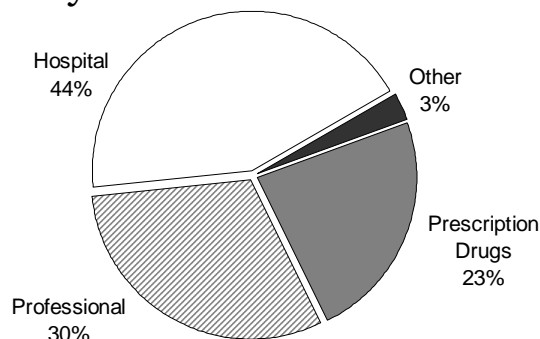
Their share of plan payments has and continues to grow annually. In 2001, drug payments climbed 22.6 percent from 2000. This occurred as the number of prescriptions paid increased 24.7 percent. **T**

State Health Plan Payments Distribution: 1996 vs. 2001

1996 Payments



2001 Payments



HEALTH PLAN ENROLLMENT 2002

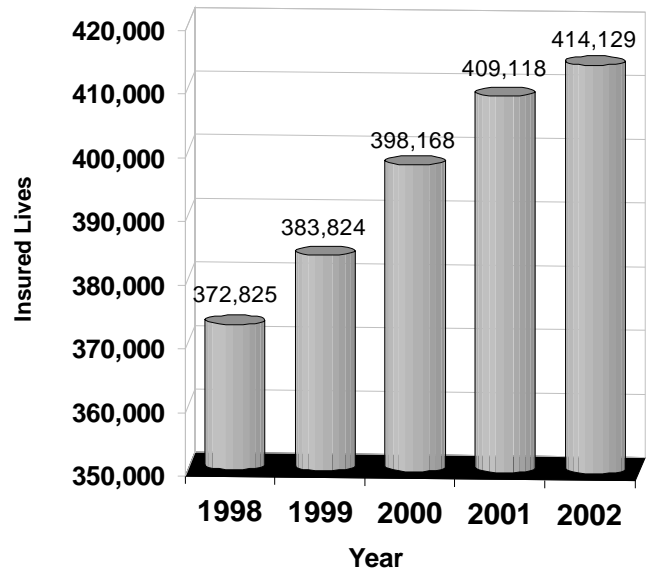
Insured Lives Count Growth Slows in 2002

While the Employee Insurance Program insured more lives in health insurance in 2002, the annual growth rate in insured lives declined. A total of 414,129 lives were insured in health coverage in February 2002, up only 1.2 percent from 2001. This is interesting when compared to the average annual growth rate of 3.2 percent from 1997 through 2001.

A similar trend was observed with both subscriber and dependent enrollment, which comprise insured lives. Subscriber enrollment growth came to a near halt at 0.8 percent while the number of dependents enrolled rose only 1.7 percent from 2001.

We devote a section of TRENDS each year to health enrollment to look into how plan changes and other factors are impacting health plan enrollment. Please note that enrollment data is based on February enrollment for the years analyzed. **T**

**Health Insured Lives:
1998 to 2002**



Actives, Retirees, Survivors, and COBRA

A total of 233,637 subscribers were enrolled in health plans in February 2002. As state government deals with the current economic trend, the health subscribers' enrollment growth has come to a near halt. From February 2001 to February 2002, the growth rate in health plan subscribers was only 0.8 percent, compared to 3.1 percent from 2000 to 2001. Prior to this markedly lower growth rate, health subscriber enrollment grew an average 3.3 percent annually from 1998 to 2001.

This trend is significant considered with the fact that health costs are continuing their rise for all health plans. It points to increased subscriber utilization.

In order to look further into the subscriber trend, we examined enrollment activity for the subscriber groups: actives, retirees, survivors, and COBRA subscribers.

Actives

Active subscriber enrollment was relatively unchanged in February 2002 from the previous year. A total of 178,182 active subscribers were enrolled in health coverage. Most, 89.3 percent, of active subscribers favored the State Health Plan (SHP) as their plan of choice. Among SHP active subscribers, 91.9 percent chose the Standard Option.

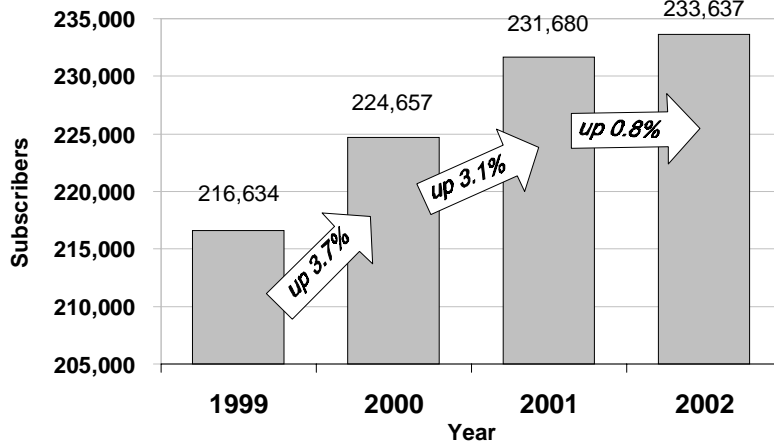
HMO enrollment among active subscribers continued to decline. One reason is that only one traditional HMO plan, Companion Healthcare, was offered for 2002. The HMO share of active subscribers dropped from 11.1 percent in 2001 to 6.4 percent in 2002 with 11,399 active subscribers.

See Subscribers on Page 6

Subscribers

Continued from Page 5

Health Subscribers: 1999 to 2002



The percentage of active subscribers enrolling in optional plans, (MUSC Options and Upstate Partners), made up 4.3 percent of active subscriber enrollment with 7,703 active subscribers. MUSC Options plan's active subscriber enrollment grew 57.9 percent from 2001.

Retirees

Retiree subscriber enrollment continued to grow in 2002. A total of 51,260 retiree subscribers were enrolled in health plans in February 2002, up 4.2 percent from 2001. Although the active subscriber growth rate slowed slightly in 2002, the retiree growth rate remained steady as more of the state's workforce aged and/or chose early-out programs.

Retiree subscribers were even more likely to choose the SHP than active subscribers. Some 98.6 percent of retiree subscribers, 50,543 subscribers, enrolled under the SHP, compared to 89.3 percent of active subscribers. Retiree SHP enrollment was divided primarily between the Standard Option (52.7 percent of retiree subscri-

ers) and Medicare Supplement (46.4 percent of retiree subscribers).

Very few retiree subscribers, 717 subscribers (1.4 percent of retiree subscribers), chose plans other than the SHP. Most of these retiree subscribers, 665 of them, enrolled in Companion HMO.

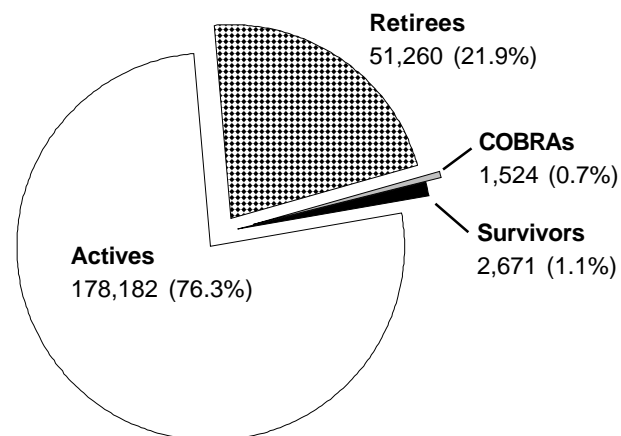
Survivors

Over the past 4 years, survivor subscribers have consistently comprised only 1.1 percent of total health subscribers. In February 2002, a total of 2,671 survivor subscribers were enrolled in health coverage. The vast majority of these subscribers, 99.3 percent, enrolled in the SHP.

COBRA

The Consolidated Omnibus Budget Reconciliation Act (COBRA) requires that a temporary extension of coverage be offered to covered employees and their families when a qualifying event occurs and coverage would have normally ended. Only 1,524 COBRA subscribers, less than 1.0 percent of all health subscribers, were enrolled in health plans in February 2002. The SHP had the largest share of COBRA subscribers with 94.6 percent.

2002 Subscriber Enrollment by Subscriber Type



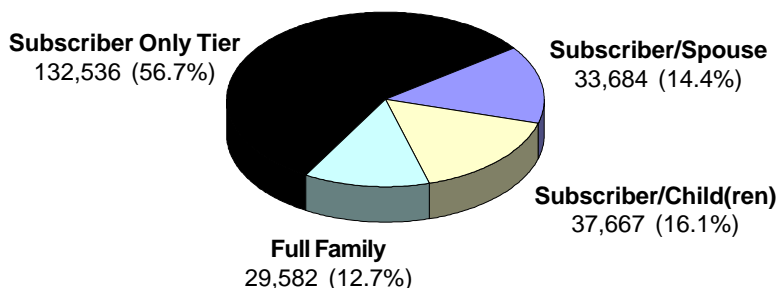
Subscriber Tiers

The Employee Insurance Program (EIP) utilizes a four-tier structure for health plan coverage: *subscriber only*; *subscriber/spouse*; *subscriber/child(ren)*; or *full family*. Premiums vary for each tier of coverage. The lowest premiums are typically paid for the *subscriber only* tier while the greatest premiums are for *full family* coverage.

The coverage needs of subscribers varied in 2002. February subscriber enrollment indicated that 56.7 percent of subscribers (132,536 subscribers) enrolled in *subscriber only* coverage in 2002, down slightly from 57.3 percent in 2001. *Subscriber only* coverage was more prominent among HMO subscribers, where 71.6 percent enrolled in *subscriber only* coverage. Typically, retiree, survivor, and COBRA subscribers were more likely to enroll in *subscriber only* coverage as well. Nearly 6 out of every 10 State Health Plan subscribers chose *subscriber only* coverage.

The *subscriber/child(ren)* tier ranked second in tier enrollment with 37,667 subscribers (16.1 percent of subscribers). An overwhelming number of subscribers in this tier, 95.1 percent,

2002 Health Subscriber Enrollment by Tier



Note: The subscriber enrollment for the Child Only (168) tier were too small to be represented in this chart.

were active employees. This is not unusual considering that most retiree subscribers do not have eligible dependent children. The overall subscriber count in the *subscriber/child(ren)* tier actually declined 3.1 percent from 2001.

The *subscriber/spouse* tier composed 14.4 percent of subscriber enrollment in 2002. With a total of 33,684 subscribers, the *subscriber/spouse* tier's subscriber count grew 6.4 percent in 2002.

Full family coverage made up 12.7 percent of subscriber tier enrollment with 29,582 subscribers. Enrollment in the *full family* tier grew 4.6 percent in 2002. Active subscribers composed the vast majority of the tier's enrollment. **T**

Health Plan Options

The Employee Insurance Program continued to provide subscribers with coverage options in 2002. However, the number of options available declined. Let's look at each plan's enrollment.

The State Health Plan

The State Health Plan (SHP) made up 91.5 percent of all subscribers with 213,717. The SHP offered three plan options for coverage: the Standard, Economy, and Medicare Supplement. The Standard plan option led options for SHP subscribers with 175,363 subscribers (82.1 percent of SHP subscribers). Since 1998, the Standard plan option's subscriber count has grown an average 4.3 percent annually.

The Medicare Supplement plan option's subscriber share continued its slow annual rise.

In 1997, it composed 9.5 percent of SHP subscribers. In 2002, it option composed 11.6 percent of the SHP's subscribers with 24,776, up 7.7 percent from 2001. This plan option is available to retirees and their dependents and survivors who are entitled to Medicare.

The Economy plan option's enrollment dropped 6.4 percent in 2002 to 13,578 subscribers. The number of subscribers choosing Economy plan option, with its higher deductibles and co-payments, has been declining for more than four years. In 1997, 8.3 percent of SHP subscribers chose the Economy plan option. By 2002, only 6.4 percent made the same choice.

See Plans on Page 8

Plans

Continued from Page 7

Companion HMO

Companion HMO was the only traditional HMO plan available to subscribers in 2002. As a result, the HMO's subscriber count grew 19.7 percent to 12,126 while its share of total subscribers was 5.2 percent in 2002. This HMO was only available in 3 of the state's 12 HMO service areas.

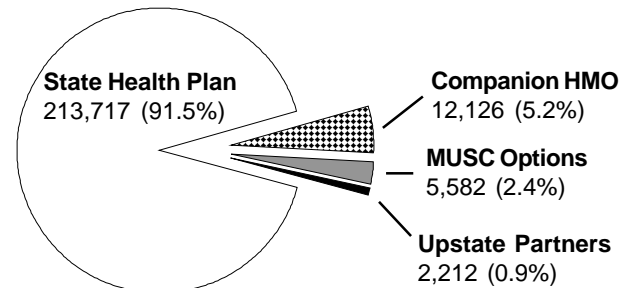
MUSC Options

MUSC Options had 5,582 subscribers, up 58.0 percent from 2001. This plan has continued to grow as more subscribers in its coverage area enroll. The plan's coverage is available to subscribers living or working in Berkeley, Charleston, Colleton, and Dorchester counties.

Upstate Partners

The only new plan available in 2002 was the Upstate Partners plan offered in the service area for Oconee, Anderson, Pickens, and Greenville counties. In 2002, Upstate Partners enrolled a total of 2,212 subscribers, less than 1.0 percent of total health subscribers.

2002 Health Subscriber Enrollment by Plan



Health Plan Switches

The number of subscribers switching between health plans during open enrollment was up for the 2002 plan year. This increase in activity is directly attributable to the reduced number of health plans available to subscribers. In 2001, 2.9 percent of health subscribers switched plans. That percentage grew to 5.5 percent as the number of health subscribers switching plans nearly doubled to 12,940.

Most subscriber plan switches were the result of HMO Blue and CIGNA Healthcare not being offered for 2002. Now, we will highlight subscriber switches by plan:

The Gainers

The State Health Plan

The State Health Plan (SHP) continued to be the plan of destination for most subscribers switching plans. The SHP had a net gain of 3,598 subscribers as a result of plan switches. The SHP gained a total of 6,218 subscribers. CIGNA Healthcare was the largest contributor to the SHP from plan switches. A total of 4,593 CIGNA subscribers switched to the SHP in

2002. Companion HMO was a distant second with 815 subscribers switching to the SHP.

While the SHP's subscriber count grew from switches, some 2,620 SHP subscribers chose other plans in 2002. Almost half of the subscribers, 1,170 subscribers, leaving the SHP chose Upstate Partners Plan. MUSC Options Plan was the second most cited plan for those leaving the SHP as 825 chose to make the switch to MUSC Options.

Upstate Partners Plan

The Upstate Partners Plan (UP) gained a total of 2,118 health subscribers from plan switches in 2002. The majority of UP's gains from subscriber switches, 55.2 percent (1,170 subscribers), moved from the SHP. Former CIGNA Healthcare subscribers composed 44.2 percent of UP's switching gains with 937 subscribers.

Companion HMO

Companion HMO posted a net gain of 1,655 subscribers as a result of subscriber switches. It gained 2,792 subscribers from other plans while losing 1,137 to other plans. Most of

See Switches on Page 9

Switches

Continued from Page 8

Companion's subscriber gains were due to former CIGNA Healthcare subscribers. CIGNA Healthcare contributed 1,626 of its subscribers to Companion HMO in 2002. The SHP ranked second with 625 of its subscribers making the switch to Companion HMO.

At the same time that 625 SHP were switching to Companion HMO, 815 Companion HMO subscribers switched to the SHP. Those Companion HMO subscribers switching to the SHP composed 71.7 percent of Companion's losses to subscriber switches.

MUSC Options Plan

Like Companion HMO, the MUSC Options plan (MUSC) had a net gain of 1,655 subscribers from switches. MUSC gained 1,812 subscribers while losing only 157 to plan switches. MUSC gained subscribers from the SHP (825 subscribers); CIGNA Healthcare (551 subscribers); Companion HMO (319 subscribers); and HMO Blue (117 subscribers).

Of the 157 subscribers leaving MUSC, 137 of them chose the SHP. The remaining 20 chose Companion HMO.

The Losers

Two health plans had a net loss of subscribers from subscriber switching. In both cases, the losses were the result of the plans not being offered for 2002.

CIGNA Healthcare

A total of 7,707 former CIGNA Healthcare subscribers switched to another plan for coverage. The SHP gained 59.6 percent of CIGNA subscribers switching with 4,593. Companion HMO picked up 1,626, or 21.1 percent, of CIGNA's subscribers. Upstate Partners gained 937 of CIGNA's subscribers while MUSC Options picked up the remaining 551 subscribers switching from CIGNA Healthcare.

HMO Blue

In 2001, HMO Blue reduced its service areas from eight to two. The plan cut the remaining two service areas in 2002, resulting in 1,319 subscriber switches to other plans.

Most of these subscribers, 673 (51.0 percent), switched to the SHP. Companion HMO was the second most chosen plan with 521 (39.5 percent) subscribers switching to Companion. The remaining 125 subscriber switches were to MUSC Options (117 subscribers) and Upstate Partners (8 subscribers).

Conclusion

Health subscribers who switched plans in 2002 were more the result of plan cancellations and additions than anything else. Both the SHP and Companion HMO saw significant subscriber gains from CIGNA Healthcare and HMO Blue. Upstate Partners plan drew nearly half of its subscribers from CIGNA.

As plan options come and go, the State Health Plan continues to be the plan of choice for most subscribers. **T**

2002 Subscriber Disenrollment from State Plan, HMOs, & MUSC Options

	Total Disenrollment	Disenrollment Percentage	% Switching to SHP	% Switching to another plan
State Health Plan	2,620	1.2%	n/a	100%
CIGNA Healthcare	7,707	100.0%	59.6%	40.4%
Companion HMO	1,137	11.0%	71.7%	28.3%
HMO Blue	1,319	100.0%	51.0%	49.0%
MUSC Options	157	4.0%	87.3%	12.7%
Totals:	12,940	5.5%	48.1%	51.9%

Disenrollment (subscribers leaving a particular plan option for another) comes in two ways. First, the plan option no longer may be available in the subscriber's area. Second, a subscriber may opt for another plan, even though the current plan remains available. Leaving a plan under these circumstances is termed "voluntary disenrollment." Disenrollment percentage is calculated by dividing the 2002 plan disenrollments by the year end plan enrollment for 2001.

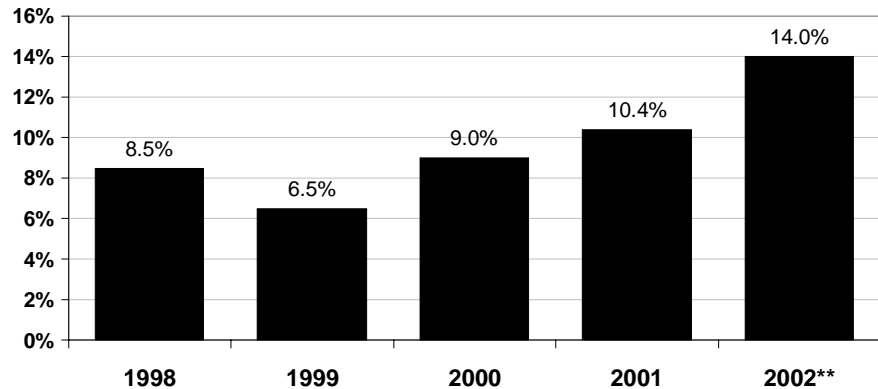
AROUND THE NATION

Highlights From The 2002 Segal Cost Trend Survey. . .

Note: The following information is used with permission from The Segal Company's 2002 Segal Health Plan Cost Trend Survey (published in October 2001).

Health plan costs are projected to escalate at a dramatic rate in 2002, according to The Segal Company's annual survey of insurers, managed care organizations, pharmacy benefit managers and third party administrators. Prescription drug benefits continue to have the highest trend rates, which are expected to increase at an annual rate of nearly 20 percent in 2002. Traditional fee-for-service medical plans, managed care plans and prescription drug programs will likely see cost increases that are three to five times the rate of increase in wages and salaries and general inflation...

**Medical Trends (with Rx)
Actives & Retirees Under Age 65***



* Data not illustrated for POS plans because the sample size is statistically insignificant.
** Projected trend.

What's Behind the Escalating Medical Plan Costs?

- ❖ Direct-to-consumer promotion of drug therapy not only increases prescription drug use but increases the frequency of office visits to health care professionals,
- ❖ In response to political and provider pressure, managed care plans are improving provider reimbursement levels and liberalizing plan rules for participants.
- ❖ Nationwide efforts to aggressively detect and diagnose disease have raised the level of preventive and diagnostic activity among the U.S. population. Nevertheless, the cost savings claims of wellness and disease management have yet to be realized on a wide-scale basis.
- ❖ The U.S. workforce continues to age as the baby boom generation enters their 50s and 60s. In general, health needs increase as individuals age.
- ❖ In some markets and regions, in order to improve balance sheets, MCOs are compensating for their aggressive and underestimated pricing in prior years.
- ❖ Technology has yet to reduce the amount of administrative costs within the industry.
- ❖ Increased government regulation leads to higher claims and administrative costs for health plans.

What's Behind the Escalating Prescription Drug Costs?

With prescription drug trends at approximately 20 percent per year, it is important to note the factors most heavily influencing this rate. They include:

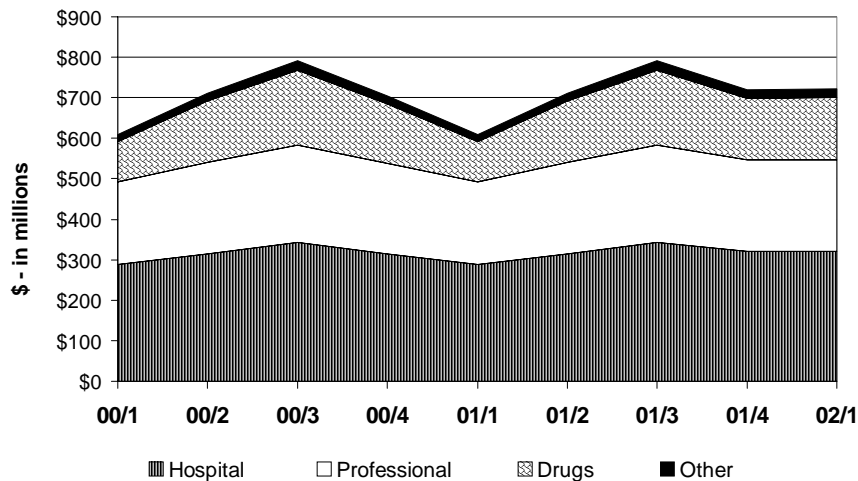
- ❖ Increased patient demand as a result of direct-to-consumer advertising and other pharmaceutical marketing or promotional effects,
- ❖ Advent of new and expensive drug therapies and greater reliance on drug therapy by the physician community,
- ❖ An aging workforce,
- ❖ Improved techniques and technology to detect and diagnose diseases,
- ❖ Erosion of enrollee cost-sharing in plans with fixed copayments, and
- ❖ Utilization rates (the number of prescriptions dispensed per participant) continue to play an important role in trend but appear to be leveling off.

It should be noted that major patent expirations in 2001 and 2002 should help to mitigate cost increases as generic drugs continue to increase their market share.

PAST TRENDS

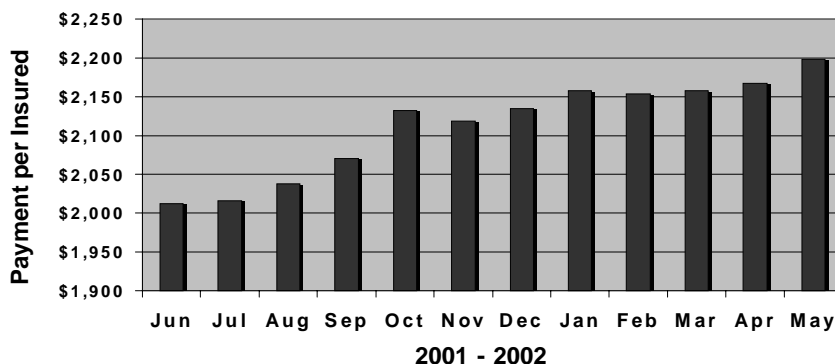
State Health Plan Quarterly Payments

Note: Payments based on date paid and not date "incurred".



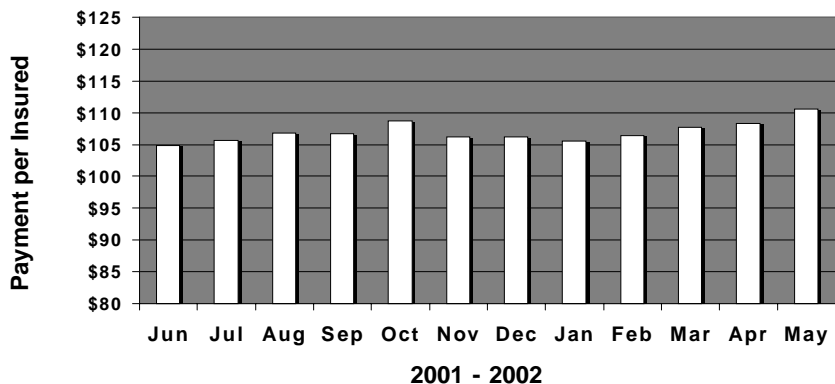
Medical Payments in Prior Year Ending in May

For example, the May total equals payments made June 2001 - May 2002.



Dental Payments in Prior Year Ending in May

For example, the May total equals payments made June 2001 - May 2002.



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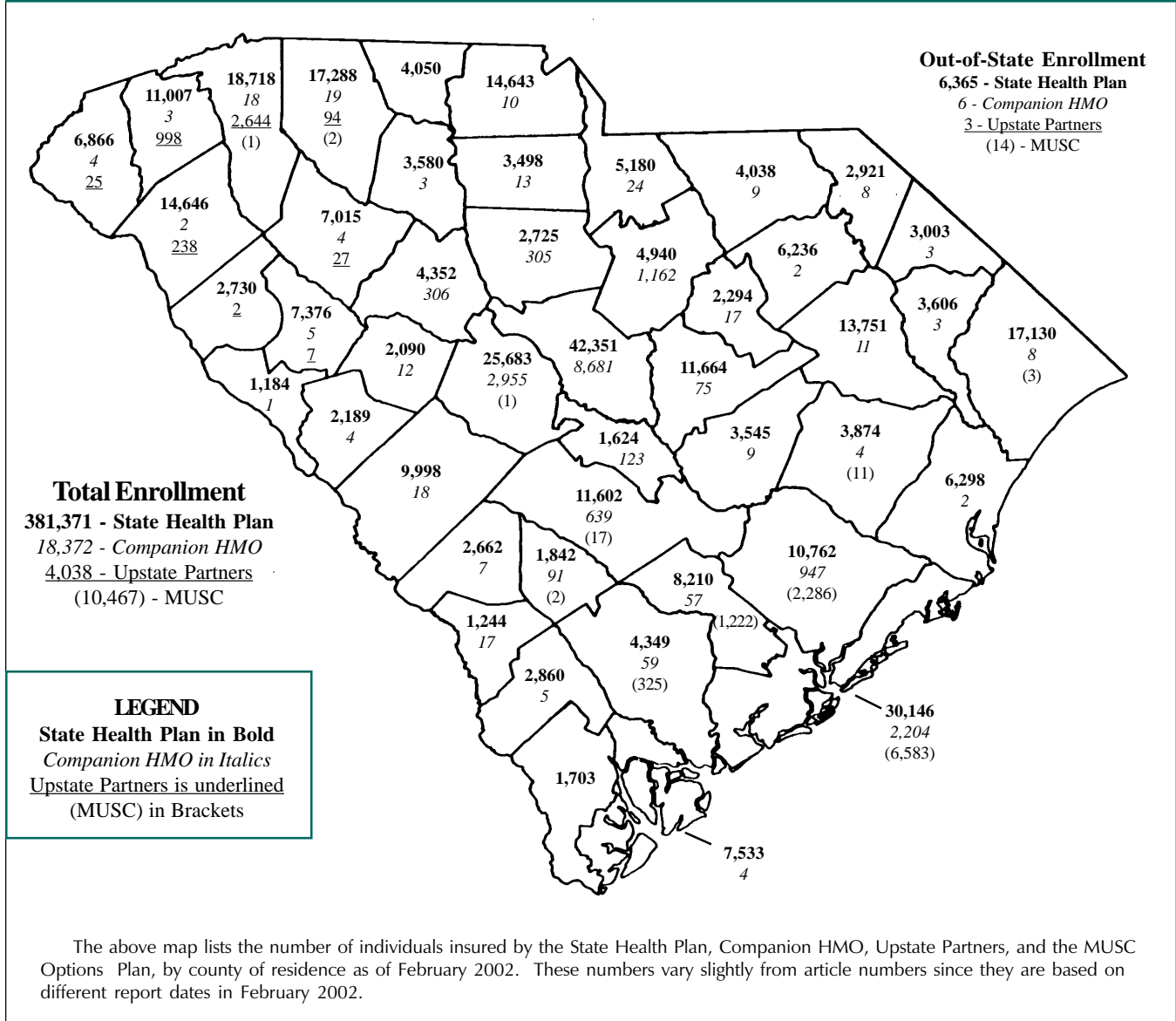
TRENDS Staff
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Estela L. Long, Ph.D.
Dewey J. King

Rob Tester
EIP Director

On the Web at:
www.eip.state.sc.us

By Mail:
Employee Insurance Program
Post Office Box 11661
Columbia, SC 29211

2002 State Group Enrollment by County



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 Columbia, South Carolina 29211

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